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THE IMPACT OF TRADE AND INVESTMENT POLICIES ON PRODUCTIVE AND DECENT WORK

Country Report for Egypt

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Executive Summary

Egypt has undertaken stringent reforms to improve macroeconomic aggregates, yet some structural challenges persist. According to data from the Ministry of Planning and Economic Development, although the reforms initiated in FY2016/17 led to a GDP growth from 5.3% to 5.6% in FY2018/19; an overall government deficit/GDP of 8%; and an inflation rate of 5.3% in FY2019/20, debt increased, poverty rates were relatively high, and the investment climate failed to provide enough incentives to private investors. In addition, the unemployment rate declined to 7.5% in Q4 2019/20 from 9.9% a year earlier, but the labour market still suffers several weaknesses such as a decline in employment rates signalling higher discouragement in the job market, as well as a lower social security coverage and access to health insurance, a deterioration in job quality. Moreover, the number of women who are informally employed, and the participation rate of post-secondary and university graduates increased (Amer et al, 2021) amid the mismatch of labour underutilization and overeducation.

While women remain in an unfavourable position in the labour market, precariousness has increased over the last decade. Like many other countries in the Middle East and North Africa (MENA) region, Egypt's labour market shows low participation rates of women. According to official Labour Force Survey (LFS) data, the male participation rate stood at 70.3%, while the female rate reached only 24.4% in FY2018/19. Yet, the overall participation rate among working-age population (15–64) increased by 8% between FY2000/01 and 2010/11 reaching 52%, ahead of going down to its 2000 level. This decline is confirmed for the FY2018/19 (CAPMAS, 2020). This decrease reflects a drop in the male participation rate over the last two decades, while that of females increased slightly between FY2000/01 and 2017/18, from 22.4 to 24.4%. At the sector level, employment is chiefly concentrated in both the services and the agriculture sectors. The latter showed a higher employment rate accounting for 24% of total employment in 2017. The wholesale and retail trade came in second place (22.9%), and the manufacturing sector (17.7%). It is noteworthy that while the unemployment rate has been declining since 2015, precarious jobs (working poverty, absence of legal contracts, pension or health coverage, or under-employment) has dramatically increased (Amer et al., 2021).

At the trade level, while tariffs decreased, non-tariff measures (NTMs) have been imposed alongside a trade policy, that failed to have a remarkable effect on Egypt's export performance. Egypt has joined the World Trade Organization (WTO) since June 1995. It has implemented various reforms targeting trade liberalization. The network of new trade agreements, coupled with the unilateral tariff reductions in 2005, has significantly liberalized Egypt's trade policy. However, NTMs, behind-the-border measures and excessive red tape hindered exports and imports. Moreover, while tariffs in the manufacturing sector decreased up to 6% in FY 2019/20, the primary sector reported a rise in tariffs from 5.1% in FY2016/17 to 19.5% in FY2019/20. To streamline trade, the Egyptian Customs Authority launched the NAFEZA system (Window in Arabic) as the National Single Window for Foreign Trade Facilitation. Moreover, a new export subsidies scheme has been recently announced, with a special focus on some sectors targeting exporters in the automotive, ceramics, pharmaceuticals, electronics, and chemicals industries.

Three main transmission channels have been identified in the literature through which trade policies can play a pivotal role in boosting economic growth and fostering sustainable development. First, trade can increase employment rates through a reshuffle of the factors of production in favour of sectors that have a comparative advantage. This will, in turn, create jobs in these sectors, but destroy jobs in other industries. In the long run, the efficiency gains arising from trade liberalization are expected to increase employment rates, thanks to more efficient production techniques in the country. Second, trade liberalization can increase demand for women and blue-collar workers (depending on the comparative advantage of the country), reducing inequality on the gender and the skill levels. Third, a strand of literature shows that more trade liberalization might help improve job quality, reduce informal employment rates and increase women employment in some sectors, such as the textiles and ready-made garments.

Egypt's trade and Foreign Direct Investment (FDI) remain relatively focused on oil and capital-intensive industries, despite slight diversification with disappointing implications on jobs. Mineral fuels and mineral oil are Egypt's top export (21%), followed by natural or cultured pearls (8%), plastics (6%), electrical machinery (6%), edible fruits (5%) and fertilizers (4%). At the FDI level, more than 70% of net FDIs are concentrated in the oil sector, compared to just 4% in manufacturing. Therefore, FDIs did not much contribute to the target technology transfer, job creation or Small and Medium Enterprises (SMEs) development. Attracting more FDIs to the manufacturing sector is a key priority, which will require better institutional quality and an improved investment climate. This should be prioritized over the recent focus on "megaprojects" mainly in transportation and urbanisation.

Agricultural, electrical and electronic products and chemicals are promising export potentials for Egypt. While chemicals make up 18% of Egypt's exports, its untapped potential is estimated at 61% of total export potential. The horticulture sector has a lower contribution of 14% and a slightly lower untapped potential. Other sectors have a higher untapped potential and are currently among the priority sectors of the government (especially electrical appliances and electronics, machinery, and vehicles). At the destination level, Egypt's unrealized potential amounts to 63%, with a great potential in African countries. This is line with the recent developments and the political momentum in Africa since the African Continental Free Trade Area (AfCFTA) agreement has come into effect in January 2021.

SMEs significantly contribute to Egypt's economy but hurdles remain. According to the World Bank Enterprise Surveys **(WBES)** (2020), small enterprises account for the largest number of firms in Egypt with 89%, while medium and large enterprises represent 10% and 1%, respectively. At the sector level, most of small enterprises are concentrated in the services sector (46%), followed by the food industry (13%) and wood products (10%). A similar pattern is observed for medium enterprises in addition to the textiles sector that includes 10% of the total number of medium enterprises. Large enterprises have a different structure, given that only 19% are operating in the services sector, followed by 14% in textiles, 11% in food, 9% in petroleum and 8% in chemicals. During the pandemic, using the International Labour Organization (ILO)/Economic Research Forum (ERF) COVID Monitor, both exporting and non-exporting SMEs have experienced a decrease in their revenues of 74% and 78%, respectively.

Some reforms have been recently undertaken on industrial and trade levels. The Ministry of Trade and Industry has issued a strategy to improve the industrial competitiveness of the Egyptian economy in 2017. Second, in line with "Egypt's Vision 2030", a new strategy has been developed by focusing on some priority industries that include tech-intensive manufacturing, agriculture, and information and communications technology (ICT). Third, in January 2021, the Ministry of Planning and Economic Development has launched the "Decent Life" initiative in the poorest and most vulnerable villages to increase their access to basic services and help establish micro-projects. In April 2021, the Ministry of Planning launched a structural reform program to enhance the efficiency of the labour market, and technical and vocational education and training. Moreover, it identified several dimensions required for the development of the institutional framework in order to promote the private sector role. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles, and upgrading the transport and logistics sectors. Finally, in order to develop the vocational education system, the Ministry of Education and Technical Education is, currently, enlisting the private sector to invest in 100 new vocational schools by 2030.

Several reforms are needed to make trade and investment policy more employment friendly. At the institutional level, the trade and investment policy making seems to be less coordinated, with some redundancies between different institutions. The private sector and social partners are not closely involved. A broad mismatch is observed between investment and trade policies in order to promote high value-added and labor-intensive sectors, linked to high global demand. To allow competition, there is a need to develop a transparent state ownership policy and governance framework. Moreover, laws exemptions and tax breaks should be limited for state actors.

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